

Public Employee Retirement System

Analyst: Bybee

Historical Summary

OPERATING BUDGET	FY 2008 Total App	FY 2008 Actual	FY 2009 Approp	FY 2010 Request	FY 2010 Gov Rec
BY PROGRAM					
Ret. Administration	5,839,800	5,438,500	6,178,800	19,835,300	6,546,700
Portfolio Investment	781,600	677,800	897,800	902,500	882,800
Total:	6,621,400	6,116,300	7,076,600	20,737,800	7,429,500
BY FUND CATEGORY					
Dedicated	6,621,400	6,116,300	7,076,600	20,737,800	7,429,500
Percent Change:		(7.6%)	15.7%	193.0%	5.0%
BY OBJECT OF EXPENDITURE					
Personnel Costs	3,790,500	3,695,900	4,123,100	4,407,900	4,113,300
Operating Expenditures	2,725,100	2,365,600	2,732,000	16,194,100	3,194,100
Capital Outlay	105,800	54,800	221,500	135,800	122,100
Total:	6,621,400	6,116,300	7,076,600	20,737,800	7,429,500
Full-Time Positions (FTP)	63.00	63.00	65.00	67.00	65.00

Division Description

The mission of the Public Employee Retirement System of Idaho (PERSI) is to provide members and their beneficiaries with reliable, secure, long-term retirement, survivor, and disability benefits as specified by law, and to assist members in planning a secure retirement by providing high quality, friendly service, retirement education and information.

The RETIREMENT ADMINISTRATION program administers the PERSI Base Plan, a Defined Benefit (DB) retirement plan that is mandatory for all eligible state and school district employees, and for employees of political subdivisions which have elected to participate, and provides separation, disability, death and survivor benefits. PERSI also administers the Sick Leave Reserve Fund for state and school district retirees, from which monthly medical insurance premiums are paid, as well as the former Firemen's Retirement Fund and the Idaho Falls and Boise City Police Retirement Funds.

The PERSI Choice Plan is a Defined Contribution (DC) retirement plan which provides a 401(k) plan option to all 66,765 eligible active PERSI members in addition to, and separate from, the DB plan. PERSI established the PERSI Choice Plan as part of the Gain Sharing program adopted by the 2000 legislature.

The PORTFOLIO INVESTMENT program is responsible for the management of PERSI assets to ensure secure long-term returns on investments while minimizing investment costs. Beginning in FY 1996, the administrative costs of portfolio investment came under a fixed appropriation. The remaining investment costs continue to operate under a perpetual appropriation as provided in Section 59-1311, Idaho Code.

Public Employee Retirement System

Agency Profile

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Sources/Uses of Funds

FY 2009 Original Appropriation

PERSI Administrative Fund: A portion of the retirement system's annual appropriation is transferred weekly to the Administrative Fund. All moneys transferred to the Administrative Fund are available to the Board for the payment of administrative expenses only to the extent so appropriated by the Legislature.

\$6,178,800

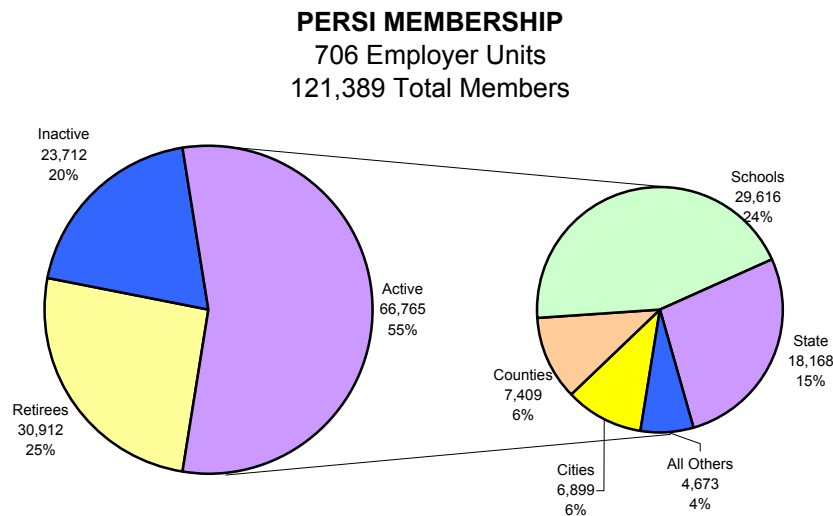
PERSI Special Fund: In order to maximize the return on investment of employee and employer contributions, only a minimum amount of money is kept on deposit at the State Treasurer's Office. Money is wired in from PERSI's master custodian bank when funds are needed to pay administrative expenses, benefits, or other authorized expenses. Although Idaho Code provides that all moneys in this fund are continuously appropriated, the legislature appropriates certain portfolio-related administrative expenses.

\$897,800

Total Appropriation

\$7,076,600

Selected Measures



CONTRIBUTION RATES		FY 2010	FY 2011	FY 2012
General Members:	Employer Rate	10.39%	10.39%	10.39%
	Employee Rate	6.23%	6.23%	6.23%
Fire/Police Members:	Employer Rate	10.73%	10.73%	10.73%
	Employee Rate	7.65%	7.65%	7.65%

Contribution rates were decreased by 3% in November 1997. In 2002, the PERSI Board approved a total contribution rate increase of 3% (including employee and employer rates) to be phased-in over three years, beginning in FY 2005. Each year following the first increase, the Board postponed implementation of the second and third phases. In the fall of 2007, the Board cancelled the future contribution rate increases.

CASE MANAGEMENT/SERVICES PROVIDED	FY 2006	FY 2007	FY 2008
Retirement Estimates Calculated	9,468	11,196	13,355
New Retirements Processed	2,217	2,181	2,183
Employer Payroll Reports Processed	13,894	13,396	13,964
Choice Plan Contributing Members	9,202	9,743	12,612

Public Employee Retirement System

Agency Profile

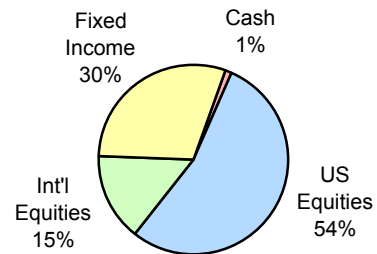
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KEY PERFORMANCE MEASURES

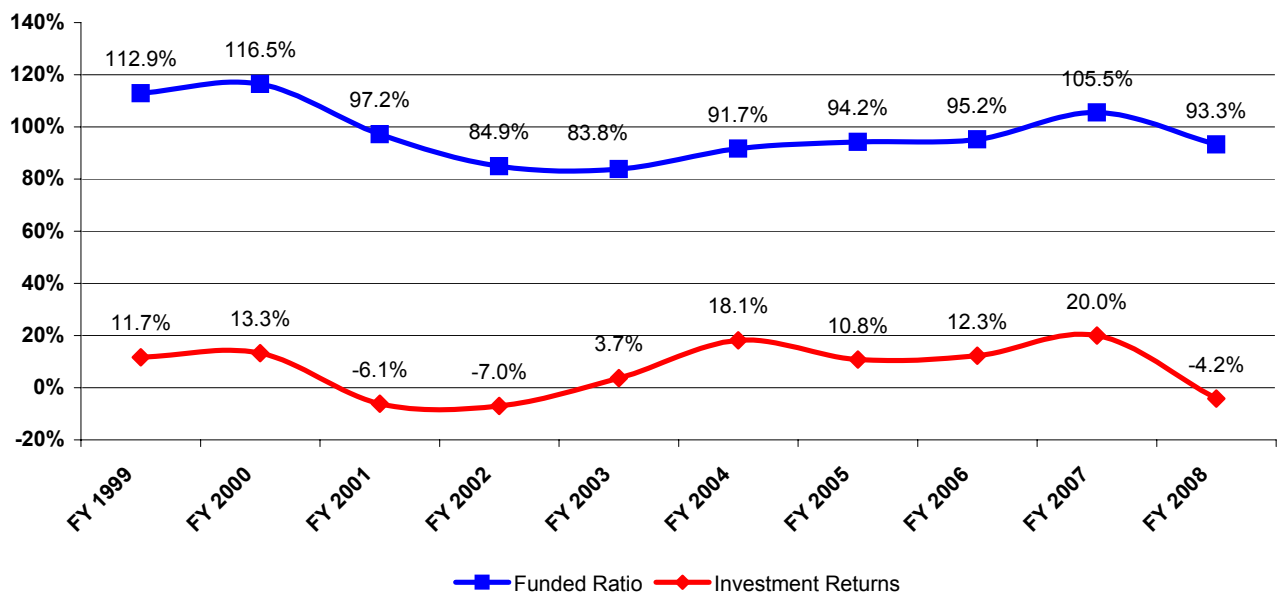
	FY 2006	FY 2007	FY 2008
Summary of Assets for All Plans (millions)			
Beginning Assets	8,815.1	9,868.1	11,787.8
Plus Contributions	466.6	487.5	519.9
Plus Net Investment Income	1,027.5	1,914.9	(562.1)
Less Benefits Paid & Other Expenses	(441.1)	(482.7)	(528.7)
Ending Net Assets	9,868.1	11,787.8	11,216.9
Benefits Paid (Retirements, Separations, Disability)	\$ 433,744,000	\$475,920,000	\$ 522,748,000
Expenses as a % of Total Asset Market Value			
Administrative Expenses (Target < .15%)	0.08%	0.06%	0.06%
Total Expenses (Long Range Target < .50%)	0.49%	0.47%	0.49%

TARGET ASSET ALLOCATION

The target asset allocation of 70% equity, 30% fixed income is the PERSI Board's primary way to achieve the desired 5% real return on investments (i.e. inflation plus 5%).



PERSI FUNDED RATIO AND INVESTMENT RETURN



The PERSI Base Plan experienced a -4.2% gross return on investments in FY 2008, which equals \$503.7 million in net unrealized investment loss. As of July 1, 2008, the PERSI Base Plan fund was valued at \$10.4 billion, down from \$10.9 billion the prior year. The 15.6 year amortization period of PERSI's unfunded actuarial liability is below the 25-year period required by law. The PERSI defined benefit plan remains well funded at 93.3% funding ratio.

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Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2009 Original Appropriation	65.00	0	7,076,600	65.00	0	7,076,600
Health Insurance Reduction	0.00	0	0	0.00	0	(32,500)
FY 2009 Total Appropriation	65.00	0	7,076,600	65.00	0	7,044,100
Removal of One-Time Expenditures	0.00	0	(233,500)	0.00	0	(233,500)
FY 2010 Base	65.00	0	6,843,100	65.00	0	6,810,600
Benefit Costs	0.00	0	55,200	0.00	0	22,700
Replacement Items	0.00	0	138,600	0.00	0	134,100
Statewide Cost Allocation	0.00	0	(37,900)	0.00	0	(37,900)
Change in Employee Compensation	0.00	0	103,200	0.00	0	0
FY 2010 Program Maintenance	65.00	0	7,102,200	65.00	0	6,929,500
1. IT System Upgrade	0.00	0	13,500,000	0.00	0	500,000
2. Data Quality Assurance	1.00	0	68,000	0.00	0	0
3. Compliance Coordinator	1.00	0	56,700	0.00	0	0
4. Restructure Fiscal Section	0.00	0	10,900	0.00	0	0
FY 2010 Total	67.00	0	20,737,800	65.00	0	7,429,500
Change from Original Appropriation	2.00	0	13,661,200	0.00	0	352,900
% Change from Original Appropriation			193.0%			5.0%

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2009 Original Appropriation	65.00	0	7,076,600	0	7,076,600
Health Insurance Reduction					
Agency Request	0.00	0	0	0	0
<i>The Governor recommends reducing the funding for health insurance by \$500 per FTP, using reserves to offset the increased costs of health insurance for the state for FY 2009 and FY 2010.</i>					
Governor's Recommendation	0.00	0	(32,500)	0	(32,500)
FY 2009 Total Appropriation					
Agency Request	65.00	0	7,076,600	0	7,076,600
Governor's Recommendation	65.00	0	7,044,100	0	7,044,100
Removal of One-Time Expenditures					
Agency Request	0.00	0	(233,500)	0	(233,500)
Governor's Recommendation	0.00	0	(233,500)	0	(233,500)
FY 2010 Base					
Agency Request	65.00	0	6,843,100	0	6,843,100
Governor's Recommendation	65.00	0	6,810,600	0	6,810,600
Benefit Costs					
Provides \$900 per position, which equates to a 10.4% increase for employer-paid health insurance. Also, includes a 19% reduction in life and disability insurance rates from 1.1% to 0.9% of salary for eligible employees.					
Agency Request	0.00	0	55,200	0	55,200
<i>The Governor recommends providing an increase of \$400 per FTP and making changes to the health insurance benefits contract to meet expected costs. Including the rescission to reduce health insurance benefit costs in FY 2009 by \$500 per FTP, employer costs per FTP for FY 2010 will be \$8,600.</i>					
Governor's Recommendation	0.00	0	22,700	0	22,700
Replacement Items					
Includes seven servers/blades for \$56,000; three laptops for \$3,600; 34 desktop computers for \$27,200; 34 monitors for \$10,200; two printers for \$1,200; one scanner for \$5,000; three fax machines for \$4,500; two desks for \$2,200; one credenza for \$1,100; three chairs for \$1,500; two rugged laptops for \$5,600; and one copier for \$8,500. Replacement of operating items include software upgrades for \$12,000.					
Agency Request	0.00	0	138,600	0	138,600
<i>The Governor recommends seven servers for \$56,000; five laptops for \$9,200; 34 monitors for \$10,200; 34 personal desktop computers for \$27,200; two printers for \$1,400; one copier for \$8,500; three fax machines for \$4,500; one scanner for \$5,100; and software for \$12,000.</i>					
Governor's Recommendation	0.00	0	134,100	0	134,100
Statewide Cost Allocation					
The request includes adjustments to recover the costs of services provided to state agencies: a reduction of \$56,800 for Attorney General fees; a reduction of \$1,400 for property and casualty insurance premiums; \$1,200 for State Controller fees; \$19,100 for State Treasurer fees.					
Agency Request	0.00	0	(37,900)	0	(37,900)
Governor's Recommendation	0.00	0	(37,900)	0	(37,900)
Change in Employee Compensation					
Agencies were instructed to calculate a 3% salary increase in the appropriation request.					
Agency Request	0.00	0	103,200	0	103,200
<i>While increasing salaries of state workers continues to be a priority for the Governor, the current economic situation does not provide the funds to recommend an increase in FY 2010. When economic conditions improve, the Governor will once again seek to improve compensation for all state employees.</i>					
Governor's Recommendation	0.00	0	0	0	0
FY 2010 Program Maintenance					
Agency Request	65.00	0	7,102,200	0	7,102,200
Governor's Recommendation	65.00	0	6,929,500	0	6,929,500

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
1. IT System Upgrade					
<p>PERSI received funding to develop a system to change access to member and employer data from batch processing to online access in FY 1997. Galena, as the system is known, provides traditional information to PERSI. However, as new technology develops, demand for additional service continues to grow. In order for PERSI to continue meeting demands of its customers, PERSI requests an upgrade to its existing technology infrastructure, leading to its eventual replacement. PERSI has hired L.R. Wechsler, Ltd to analyze the status of current practices and technology, and make recommendations based on the following criteria: critically analyze the stability, risks and general shape of the current technology infrastructure, identify alternatives to increase the integration of various systems and position the agency's technology and staff for the next ten years, and estimate the costs associated with each of the alternatives. A preliminary recommendation is a Customizable, Off-The-Shelf (COTS) system with PERSI specific customization solution. This system carries a cost estimate of \$13,500,000 with implementation plans for the next three to five years. The COTS system includes a single integrated solution and open architecture for future expansion; is implemented with existing staff; an implementation methodology including system documentation and manuals for users and administrators; improves service by providing the majority of the functionality; and is easily integrated with other applications or systems. The cost estimate includes an oversight project manager for the duration of the project and development; an evaluation of RFP's for the new system is \$2,000,000; and the actual system acquisition and custom programming is \$11,500,000.</p>					
Agency Request	0.00	0	13,500,000	0	13,500,000
<p><i>The Governor recommends \$500,000 in dedicated fund spending authority to begin the initial processes involved with replacing PERSI's core membership, employer, and benefit payment technology. Specifically, this recommendation will allow PERSI to contract with a project manager, make site visits to other systems, and develop a request for proposal.</i></p>					
Governor's Recommendation	0.00	0	500,000	0	500,000
2. Data Quality Assurance					
<p>This line-item request is for a full-time data quality assurance position and accompanying office equipment. This request includes \$63,400 for ongoing salary and benefits, and \$4,600 for one-time office equipment purchases. As demand for additional services continues to grow, there is a stated need to continually monitor the quality of the underlying data and ensure accuracy of services provided. The position will identify data quality problems, help design queries and edits to isolate the records potentially involved, research and verify that a problem exists and facilitate corrections. Currently, this data quality assurance function has been filled by one staff member on a part-time basis.</p>					
Agency Request	1.00	0	68,000	0	68,000
<i>Not recommended by the Governor.</i>					
Governor's Recommendation	0.00	0	0	0	0
3. Compliance Coordinator					
<p>This line-item request is for a full-time position to manage employers' eligibility compliance, employer web-based self-review system and payroll data analysis. This position would expand services in the web-based review program and payroll data analysis programs by identifying reporting problem areas and potential employer training opportunities. The compliance coordinator would help employers avoid situations where 6 to 12 months of contributions are due PERSI by both the employer and employee. This request is for 1.00 FTP, \$52,100 for ongoing salary and benefits and \$4,600 for one-time purchase of office equipment.</p>					
Agency Request	1.00	0	56,700	0	56,700
<i>Not recommended by the Governor.</i>					
Governor's Recommendation	0.00	0	0	0	0
4. Restructure Fiscal Section					
<p>PERSI is experiencing increased responsibilities, complexity in financial reporting, audit standards and significant growth in the investment portfolio. As a result, PERSI requests \$10,900 for ongoing personnel costs to restructure its fiscal section. The stated goal is to improve overall operational effectiveness, disperse knowledge and decision making, and realign duties to accurately reflect the current organizational culture.</p>					
Agency Request	0.00	0	10,900	0	10,900
<i>Not recommended by the Governor.</i>					
Governor's Recommendation	0.00	0	0	0	0

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2010 Total					
Agency Request	67.00	0	20,737,800	0	20,737,800
<i>Governor's Recommendation</i>	<i>65.00</i>	<i>0</i>	<i>7,429,500</i>	<i>0</i>	<i>7,429,500</i>
Agency Request					
Change from Original App	2.00	0	13,661,200	0	13,661,200
% Change from Original App	3.1%		193.0%		193.0%
<i>Governor's Recommendation</i>					
<i>Change from Original App</i>	<i>0.00</i>	<i>0</i>	<i>352,900</i>	<i>0</i>	<i>352,900</i>
<i>% Change from Original App</i>	<i>0.0%</i>		<i>5.0%</i>		<i>5.0%</i>